

HILLMAN TOWNSHIP
(montmorency)
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Hillman Township	County Montmorency
Audit Date 3/31/04	Opinion Date 8/24/04	Date Accountant Report Submitted to State: 9/22/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Thomas R. Zick, CPA, P.C.			
Street Address P.O. Box 149	City Lewiston	State MI	ZIP 49756
Accountant Signature 			

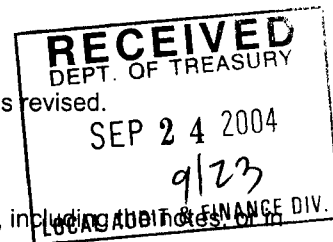


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Thomas R. Zick CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

August 24, 2004

Township Board
Hillman Township
Montmorency County, Michigan

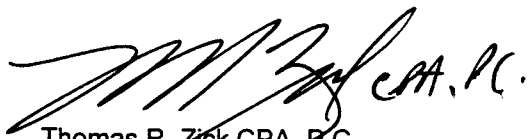
Dear Board:

I have audited the accompanying general purpose financial statements of Hillman Township, Montmorency County, Michigan as of and for the year ended March 31, 2004 as listed in the table of contents. These general purpose financial statements are the responsibility of the Township officials. My responsibility is to express an opinion based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Hillman Township, Montmorency County, Michigan as of March 31, 2004, and the results of its operations and the cash flows of its Proprietary Fund Type for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and individual fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of Hillman Township, Montmorency County, Michigan. The information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in my opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

HILLMAN TOWNSHIP
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
MARCH 31, 2004

	Governmental Fund Types		Proprietary Fund Type	Account Group	Total
	General	Special Revenue	Enterprise	General Fixed Assets	Memorandum Only
ASSETS					
Cash demand and time deposits	\$ 243,724	\$ 134,657	\$ 17,517	\$ -0-	\$ 395,898
Taxes and fees receivable	10,415	3,316	-0-	-0-	13,731
Fixed assets-cost	-0-	-0-	823,539	305,560	1,129,099
Accumulated depreciation	<u>-0-</u>	<u>-0-</u>	<u>(466,983)</u>	<u>-0-</u>	<u>(466,983)</u>
Total Assets	<u>\$ 254,139</u>	<u>\$ 137,973</u>	<u>\$ 374,073</u>	<u>\$ 305,560</u>	<u>\$ 1,071,745</u>
LIABILITIES AND FUND EQUITY					
Accrued liabilities	\$ 3,991	\$ -0-	\$ 3,451	\$ -0-	\$ 7,442
Bonds payable	<u>-0-</u>	<u>-0-</u>	<u>30,000</u>	<u>-0-</u>	<u>30,000</u>
Total Liabilities	<u>3,991</u>	<u>-0-</u>	<u>33,451</u>	<u>-0-</u>	<u>37,442</u>
Fund Equity:					
Fund balance - undesignated	250,148	125,369	-0-	-0-	375,517
Designated for perpetual care	-0-	12,604	-0-	-0-	12,604
Retained Earnings	-0-	-0-	6,775	-0-	6,775
Contributed Equity	-0-	-0-	333,847	-0-	333,847
Investment in Fixed Assets	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>305,560</u>	<u>305,560</u>
Total Fund Equity	<u>250,148</u>	<u>137,973</u>	<u>340,622</u>	<u>305,560</u>	<u>1,034,303</u>
Total Liabilities and Fund Equity	<u>\$ 254,139</u>	<u>\$ 137,973</u>	<u>\$ 374,073</u>	<u>\$ 305,560</u>	<u>\$ 1,071,745</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED MARCH 31, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Total (Memorandum Only)</u>
Revenue:			
Taxes	\$ 74,793	\$ 43,181	\$ 117,974
Licenses and permits	300	-0-	300
State	109,391	-0-	109,391
Interest earned	3,109	1,685	4,794
Charges for services	17,286	11,265	28,551
Other	<u>18,955</u>	<u>351</u>	<u>19,306</u>
Total Revenue	<u>223,834</u>	<u>56,482</u>	<u>280,316</u>
Expenditures:			
Legislative	29,173	-0-	29,173
General government	84,796	-0-	84,796
Public safety	4,685	42,629	47,314
Public works	950	-0-	950
Recreation and culture	24,772	-0-	24,772
Other	<u>6,531</u>	<u>15,421</u>	<u>21,952</u>
Total Expenditures	<u>150,907</u>	<u>58,050</u>	<u>208,957</u>
Excess of revenue over (under) expenditures	<u>72,927</u>	<u>(1,568)</u>	<u>71,359</u>
Other financing sources (uses):			
Operating transfers in	-0-	6,000	6,000
Operating transfers out	<u>(21,000)</u>	<u>-0-</u>	<u>(21,000)</u>
Total Other Financing Sources (Uses)	<u>(21,000)</u>	<u>6,000</u>	<u>(15,000)</u>
Excess:			
Revenue and other financing sources over (under) expenditures and other financing uses	51,927	4,432	56,359
Fund balance - April 1, 2003	<u>301,367</u>	<u>133,541</u>	<u>434,908</u>
Fund balance - March 31, 2004	<u>\$ 353,294</u>	<u>\$ 137,973</u>	<u>\$ 491,267</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED MARCH 31, 2004

	General Fund		
	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues:			
Taxes	\$ 74,700	\$ 74,793	\$ 93
Licenses and permits	1,200	300	(900)
State shared revenue	121,000	109,391	(11,609)
Interest on investments	1,500	3,109	1,609
Charges for services	18,000	17,286	(714)
Other	<u>20,400</u>	<u>18,955</u>	<u>(1,445)</u>
Total Revenue	<u>236,800</u>	<u>223,834</u>	<u>(12,966)</u>
Expenditures:			
Legislative	38,400	29,173	9,227
General government	94,300	84,796	9,504
Public safety	5,200	4,685	515
Public works	29,000	950	28,050
Recreation and culture	36,900	24,772	12,128
Other	<u>10,000</u>	<u>6,531</u>	<u>3,469</u>
Total Expenditures	<u>213,800</u>	<u>150,907</u>	<u>62,893</u>
Excess of revenue over (under) expenditures	<u>23,000</u>	<u>72,927</u>	<u>49,927</u>
Other financing sources (uses):			
Operating transfers in	-0-	-0-	-0-
Operating transfers out	<u>(22,000)</u>	<u>(21,000)</u>	<u>1,000</u>
Total Other Financing Sources (Uses)	<u>(22,000)</u>	<u>(21,000)</u>	<u>1,000</u>
Excess:			
Revenue and other financing sources over (under) expenditures and other financing uses	1,000	51,927	50,927
Fund balance (deficit) - April 1, 2003	<u>301,367</u>	<u>301,367</u>	<u>-0-</u>
Fund balance (deficit)-March 31, 2004	<u>\$ 302,367</u>	<u>\$ 353,294</u>	<u>\$ 50,927</u>

See Notes to Financial Statements

Special Revenue Funds			Total (Memorandum Only)		
Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Favorable (Unfavorable)
\$ 42,000	\$ 43,181	\$ 1,181	\$ 116,700	\$ 117,974	\$ 1,274
-0-	-0-	-0-	1,200	300	(900)
-0-	-0-	-0-	121,000	109,391	(11,609)
400	1,685	1,285	1,900	4,794	2,894
13,250	11,265	(1,985)	31,250	28,551	(2,699)
150	351	201	20,550	19,306	(1,244)
55,800	56,482	682	292,600	280,316	(12,284)
-0-	-0-	-0-	38,400	29,173	9,227
-0-	-0-	-0-	94,300	84,796	9,504
43,000	42,629	371	48,200	47,314	886
-0-	-0-	-0-	29,000	950	28,050
-0-	-0-	-0-	36,900	24,772	12,128
22,150	15,421	6,729	32,150	21,952	10,198
65,150	58,050	7,100	278,950	208,957	69,993
(9,350)	(1,568)	7,782	13,650	71,359	57,709
6,000	6,000	-0-	6,000	6,000	-0-
-0	-0-	-0-	(22,000)	(21,000)	1,000
6,000	6,000	-0-	(16,000)	(15,000)	1,000
(3,350)	4,432	7,782	(2,350)	56,359	58,709
133,541	133,541	-0-	434,908	434,908	-0-
\$ 130,191	\$ 137,973	\$ 7,782	\$ 432,558	\$ 491,267	\$ 58,709

HILLMAN TOWNSHIP
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED MARCH 31, 2004

BUILDING AUTHORITY

Operating Revenue:		
Leases	\$ 15,192	
Banquet Sales	12,863	
Cleaning Fees	1,900	
Rental	16,889	
Roller Skating	42,793	
Miscellaneous	<u>1,207</u>	
Total Operating Revenue		\$ <u>90,844</u>
Operating Expenses:		
Wages & Fringes	22,649	
Utilities	14,238	
Supplies	10,225	
Contractual Services	2,100	
Maintenance and Repair	11,633	
Insurance	935	
Depreciation	27,023	
Miscellaneous	5,975	
Roller Skating	<u>22,981</u>	
Total Operating Expenses		<u>117,759</u>
Operating Income (Loss)		<u>(26,915)</u>
Non-Operating Income		
Township Contribution		15,000
Interest Income		129
Interest Expense		<u>(1,995)</u>
Total Non-Operating Income		<u>13,134</u>
Net Income		(13,781)
Retained Earnings - Beginning		<u>354,403</u>
Retained Earnings - Ending		<u>\$ 340,622</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED MARCH 31, 2004

BUILDING AUTHORITY

Cash Flows From Operating Activities:	
Cash received from customers/leases	\$ 90,844
Cash payments for goods and services	(67,523)
Cash payments to employees and for fringes	<u>(22,649)</u>
Net Cash Provided (Used) by Operating Activities	<u>672</u>
Cash Flows From Capital and Related Financing Activities:	
Township contribution	15,000
Interest expense	(1,995)
Principal paid on bonds	<u>(15,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,995)</u>
Cash Flows From Investing Activities:	
Interest on investments	<u>129</u>
Net Cash Provided by Investing Activities	<u>129</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,194)
Cash and Cash Equivalents - Beginning of Year	<u>18,711</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 17,517</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (26,915)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	27,023
Increase (Decrease) in accrued liabilities	<u>564</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 672</u></u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America as applicable to governmental units. the following is a summary of the significant accounting policies:

DESCRIPTION OF TOWNSHIP OPERATIONS AND FUND TYPES

The General Law Township is located in Montmorency County, Michigan and operates under an elected Township Board consisting of a Supervisor, Treasurer, Clerk and two Trustees. This Board and its employees provide services to the residents in areas such as fire protection, voter registration and maintenance of Township facilities, tax assessing, cemetery operation and planning and zoning.

The criteria established by NCGA and GASB #14 for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements of other Montmorency County governmental organizations listed below are not included in the financial statements of Hillman Township.

The County operations are reported in financial statements separate from these statements as are those of other townships in the County. Education services are provided to citizens through the several local school districts which are also separate governmental entities.

BASIS OF PRESENTATION

Fund Accounting

The accounts of the township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The township maintains the following funds:

Governmental Funds

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

Special Revenue Funds - These funds are used to account for specific governmental revenues (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Enterprise Fund

This fund accounts for operations of the Building Authority where the cost of providing services to the general public on a continuing basis is recovered partially through user charges. This fund has long-term debt and the cost of carrying that debt is recorded in the Enterprise Fund.

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund

Trust and Agency Fund - This Fund is used to account for assets held by the Township in a trustee capacity for other governments and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

General Fixed Assets Account Group - This account group is used to account for the fixed assets used in governmental fund type operations. No depreciation has been provided on general fixed assets. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available.

BASIS OF ACCOUNTING

The Township maintains its books and records on the modified accrual basis of accounting. Modifications from full accrual are as follows:

- a. Property taxes and other revenues that are both measurable and available for use to finance operations are recorded when earned. Other revenue is recorded when received.
- b. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. The taxes levied on December 1 are included as revenue in this financial statement. Taxes are due and payable on or before February 28 at which time they are returned to the County Treasurer as delinquent. Montmorency County's present policy is to fund the delinquent taxes and remit the full balance due to each taxing unit.

The following list details accounting methods by type of fund:

Governmental Fund Types - All Governmental Fund Types are accounted for using the modified accrual basis of accounting. Revenues are generally recognized when measurable and available to finance current operations. Expenditures are generally recognized when the related fund liability is incurred.

Enterprise Funds - The Enterprise fund is accounted for using the accrual basis of accounting; recognizing revenue when earned and expenses when incurred.

Fiduciary Agency Funds - All Fiduciary Agency Funds are accounted for using the accrual basis of accounting. These funds are limited to the collection of amounts which are subsequently returned or paid to third parties.

BUDGETS AND BUDGETARY ACCOUNTING

All funds are under the direct control of the Township Board for budgetary purposes. The Board annually approves and adopts the budget in accordance with the Uniform Budgeting and Accounting Act - Michigan Public Act 621 of 1978.

The budget is amended as necessary throughout the year. Violations of the budget act are disclosed in the bi-annual audit for the year under audit only.

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Budgets for the Township's governmental fund types are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The budgets are amended as required throughout the year and expire at the end of each fiscal year. New budgets must be adopted annually.

FIXED ASSETS

Fixed asset purchases in governmental fund types are recorded as expenditures during the year purchased in accordance with accounting principles generally accepted in the United States of America for municipalities. They are then recorded in the general fixed asset group of accounts. The Enterprise fund fixed assets are capitalized and depreciated in the Enterprise Fund.

TOTAL MEMORANDUM ONLY

Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

OTHER FINANCING SOURCES AND USES

Other financing sources of \$6,000 and other financing uses of \$21,000 presented on the Combined Statement of Revenues, Expenditures and Changes in Fund Balance - All Governmental Fund Types do not agree by \$15,000 resulting from a transfer from general fund to the Building Authority Enterprise Fund in that amount.

NOTE B - CASH

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>		<u>Cash Items</u>	
Cash demand and time deposits	<u>\$ 395,898</u>	Savings and Checking	\$ 296,249
		Certificates of deposit	99,520
		Imprest Cash	<u>129</u>
	<u>\$ 395,898</u>		<u>\$ 395,898</u>

Deposits - At year end, the carrying amount of the Township's deposits was \$395,769 and the bank balance was \$409,667. Of the bank balance, approximately 99.32% was covered by federal depository insurance.

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2004

NOTE C - SCHEDULE OF FIXED ASSETS

	Balance 3/31/03	Additions	Deletions	Balance 3/31/04
ASSETS				
Land/Land Improvements	\$ 156,508	\$ 1,313	\$ -0-	\$ 157,821
Buildings	81,948	4,543	-0-	86,491
Equipment	17,669	-0-	-0-	17,669
Office Equipment	42,099	1,480	-0-	43,579
Investment in General Fixed Assets	<u>\$ 298,224</u>	<u>\$ 7,336</u>	<u>\$ -0-</u>	<u>\$ 305,560</u>

NOTE D - PENSION PLAN

Plan Description - Hillman Township has established a defined contribution pension plan with the Manufacturers Life Insurance Company covering the elected officials of the Township. Participating officials contribute a portion of their compensation annually and the Township contributes the remaining amounts necessary to fund the plan according to requirements. It is a defined contribution plan.

The information required by the Governmental Accounting Standards Board was not available at audit date. The Township contribution was \$2,325 for the fiscal year ending March 31, 2004.

NOTE E - DELINQUENT PROPERTY TAXES RECEIVABLE

The delinquent real property taxes of the Township are purchased by the County of Montmorency. The County intends to sell tax notes, the proceeds of which will be used to pay the Township for these property taxes. These taxes were collected in April of 2004.

NOTE F - BUILDING AUTHORITY DEBT

During 1993/94 the Building Authority borrowed \$150,000 to pay for remodeling and an addition to the Community Center Building. The Township has signed a lease agreement with the Building Authority. This full faith and credit General obligation contract of lease pledges the township lease payment until the debt is repaid. The details on the obligation are as follows:

<u>Interest rates</u>	<u>Maturity year</u>	<u>Outstanding 3/31/04</u>	
3.95% - 5.40%	2005		
		<u>Principal</u>	<u>Interest</u>
		<u>\$ 30,000</u>	<u>\$ 1,613</u>

ANNUAL DEBT SERVICE REQUIREMENTS

	<u>2004/05</u>	<u>2005/06</u>	<u>Total</u>
Principal	\$ 15,000	\$ 15,000	\$ 30,000
Interest	1,208	405	1,613
	<u>\$ 16,208</u>	<u>\$ 15,405</u>	<u>\$ 31,613</u>

HILLMAN TOWNSHIP
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
MARCH 31, 2004

NOTE G - BUILDING AUTHORITY OPERATION

Description:

The Building Authority was created under Michigan Public Act 31 of 1940, as amended. The articles of incorporation were adopted by the Hillman Township board February 15, 1982. Its primary function was to borrow funds under appropriate Michigan statutes to build a Community Center for municipal offices, community group functions and local private parties.

Revenue Sources:

The Building Authority operates roller skating which provides a significant portion of the annual operating revenues. In addition, office space is leased to the Village of Hillman and the Township of Hillman. The building is also rented to other groups and individuals for a meeting and banquet center. The Township of Hillman provides financial support as needed.

Fixed Assets:

Property and equipment are carried at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the property. Supplies and repairs are charged as an expense in the year incurred.

Contributed Equity:

Contributed equity at March 31, 2004 is as follows:

Township	\$ 321,495
Donations - Miscellaneous	2,352
Church	<u>10,000</u>
	<u>\$ 333,847</u>

NOTE H - BUDGETS AND BUDGETARY ACCOUNTING

The budgets were adopted in accordance with Public Act 621 and were adopted on a basis consistent with accounting principles generally accepted in the United States of America. They are amended as appropriate throughout the fiscal year and lapse at the end of the year.

P.A. 621 of 1978, section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis.

During the year ended March 31, 2004, the Township incurred expenditures in the following areas which were in excess of the amounts appropriated.

General Fund:	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
Board of Review	\$ 1,000	\$ 1,116	\$ (116)
Supervisor	\$ 11,200	\$ 11,496	\$ (296)

HILLMAN TOWNSHIP
GENERAL FUND
BALANCE SHEET
MARCH 31, 2004

ASSETS

Cash demand and time deposits	\$ 243,724
Accounts receivable	1,141
Taxes and administration fee receivable	<u>9,274</u>

Total Assets	<u>\$ 254,139</u>
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LIABILITIES AND FUND EQUITY

Accounts payable	\$ 2,382
Accrued liabilities	<u>1,609</u>

Total Liabilities	<u>3,991</u>
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Fund Equity:

Fund balance - undesignated	<u>250,148</u>
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Total Fund Equity	<u>250,148</u>
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Total Liabilities and Fund Equity	<u>\$ 254,139</u>
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See Notes to Financial Statements

HILLMAN TOWNSHIP
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenue:			
Taxes	\$ 74,700	\$ 74,793	\$ 93
Licenses and permits	1,200	300	(900)
State shared revenue	121,000	109,391	(11,609)
Interest on investments	1,500	3,109	1,609
Charges for services	18,000	17,286	(714)
Other	<u>20,400</u>	<u>18,955</u>	<u>(1,445)</u>
Total Revenue	<u>236,800</u>	<u>223,834</u>	<u>(12,966)</u>
Expenditures:			
Legislative	38,400	29,173	9,227
General government	94,300	84,796	9,504
Public Safety	5,200	4,685	515
Recreation and Culture	36,900	24,772	12,128
Public Works	29,000	950	28,050
Other	<u>10,000</u>	<u>6,531</u>	<u>3,469</u>
Total Expenditures	<u>213,800</u>	<u>150,907</u>	<u>62,893</u>
Excess of revenue over (under) expenditures	<u>23,000</u>	<u>72,927</u>	<u>49,927</u>
Other financing sources (uses):			
Operating transfers out	<u>(22,000)</u>	<u>(21,000)</u>	<u>1,000</u>
Total Other Financing Sources (Uses)	<u>(22,000)</u>	<u>(21,000)</u>	<u>1,000</u>
Excess:			
Revenue and other financing sources over (under) expenditures and other financing uses	1,000	51,927	50,927
Fund balance (deficit)-April 1, 2003	<u>301,367</u>	<u>301,367</u>	<u>-0-</u>
Fund balance (deficit)- March 31, 2004	<u>\$ 302,367</u>	<u>\$ 353,294</u>	<u>\$ 50,927</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
 DETAIL SCHEDULE OF REVENUES
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
TAXES			
Property taxes - general	\$ 56,700	\$ 56,474	\$ (226)
Swamp tax	<u>18,000</u>	<u>18,319</u>	<u>319</u>
	<u>74,700</u>	<u>74,793</u>	<u>93</u>
LICENSES AND PERMITS			
Zoning permits	<u>1,200</u>	<u>300</u>	<u>(900)</u>
STATE			
Revenue Sharing	<u>121,000</u>	<u>109,391</u>	<u>(11,609)</u>
INTEREST			
	<u>1,500</u>	<u>3,109</u>	<u>1,609</u>
CHARGES FOR SERVICES			
Tax administration fee	<u>18,000</u>	<u>17,286</u>	<u>(714)</u>
OTHER			
Grant	6,000	4,000	(2,000)
Village	3,000	3,000	-0-
Reimbursements and refunds	3,000	1,854	(1,146)
Miscellaneous	<u>8,400</u>	<u>10,101</u>	<u>1,701</u>
	<u>20,400</u>	<u>18,955</u>	<u>(1,445)</u>
Total Revenues	<u>\$ 236,800</u>	<u>\$ 223,834</u>	<u>\$ (12,966)</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
GENERAL FUND
EXPENDITURES - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Legislative:			
Township Board	\$ 38,400	\$ 29,173	\$ 9,227
Total Legislative	<u>38,400</u>	<u>29,173</u>	<u>9,227</u>
General Government:			
Supervisor	11,200	11,496	(296)
Election	1,000	391	609
Assessor	29,800	28,531	1,269
Board of Review	1,000	1,116	(116)
Clerk	13,300	13,256	44
Treasurer	16,400	15,343	1,057
Town Hall	20,000	13,438	6,562
EDC	100	-0-	100
Building Authority	1,500	1,225	275
Total General Government	<u>94,300</u>	<u>84,796</u>	<u>9,504</u>
Public Safety:			
Planning and Zoning	5,000	4,685	315
Emergency Preparedness	200	-0-	200
Total Public Safety	<u>5,200</u>	<u>4,685</u>	<u>515</u>
Recreation and Cultural:			
Library	8,000	2,156	5,844
Parks and Recreation	18,900	12,616	6,284
Gristmill	10,000	10,000	-0-
Total Recreation and Culture	<u>36,900</u>	<u>24,772</u>	<u>12,128</u>
Public Works:			
Roads	28,000	950	27,050
Airport	1,000	-0-	1,000
Total Public Works	<u>29,000</u>	<u>950</u>	<u>28,050</u>
Other:			
Insurance and Bonds	8,500	6,431	2,069
Miscellaneous	1,500	100	1,400
Total Other	<u>10,000</u>	<u>6,531</u>	<u>3,469</u>
<u>Other Financing Uses</u>			
Operating transfers out:			
Transfer to Cemetery Fund	7,000	6,000	1,000
Transfer to Building Authority	15,000	15,000	-0-
Total Other Financing Uses	<u>22,000</u>	<u>21,000</u>	<u>1,000</u>
Total Expenditures and Other Financing Uses	<u>\$ 235,800</u>	<u>\$ 171,907</u>	<u>\$ 63,893</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
 DETAIL SCHEDULE OF EXPENDITURES
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED MARCH 31, 2004

LEGISLATIVE

Township Board

Trustee salaries	\$ 7,785	
Community promotion	1,384	
Printing and publishing	161	
Schooling, training, and memberships	1,278	
Miscellaneous	2,543	
Repairs and maintenance	305	
Supplies	734	
Mileage	181	
Payroll taxes	4,212	
Pension	1,987	
Capital outlay	390	
Utilities	283	
Data processing	<u>7,930</u>	
		<u>\$ 29,173</u>

GENERAL GOVERNMENT

Supervisor

Salary	8,450	
Mileage	787	
Seminars	<u>2,259</u>	
		<u>11,496</u>

Election

Supplies	<u>391</u>	
		<u>391</u>

Assessor

Salary	4,789	
Contractual	18,212	
Office supplies and postage	4,630	
Mileage and other miscellaneous	<u>900</u>	
		<u>28,531</u>

Board of Review

Salary	635	
Dues and training	238	
Printing and publishing	<u>243</u>	
		<u>1,116</u>

Clerk

Salary	10,240	
Office supplies and postage	278	
Mileage, seminars, training	<u>2,738</u>	
		<u>13,256</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
 DETAIL SCHEDULE OF EXPENDITURES
 GENERAL FUND (CONTINUED)
 YEAR ENDED MARCH 31, 2004

GENERAL GOVERNMENT (CONTINUED)

Treasurer

Salary	\$ 12,847	
Office supplies and postage	1,774	
Mileage, seminars, training	<u>722</u>	
		<u>\$ 15,343</u>

Township Hall

Rent	10,436	
Repairs and maintenance	1,795	
Utilities	<u>1,207</u>	
		<u>13,438</u>

Building Authority

Per diem	<u>1,225</u>	
		<u>1,225</u>

PUBLIC SAFETY

Planning and Zoning

Per diem	1,695	
Legal	473	
Other	1,800	
Mileage and service	<u>717</u>	
		<u>4,685</u>

RECREATION AND CULTURE

Library

Library	<u>2,156</u>	
		<u>2,156</u>

Park Commission

Salary	1,118	
Supplies	964	
Repairs and maintenance	7,538	
Utilities	1,938	
Miscellaneous	<u>1,058</u>	
		<u>12,616</u>

Grist Mill

Miscellaneous	<u>10,000</u>	
		<u>10,000</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
DETAIL SCHEDULE OF EXPENDITURES
GENERAL FUND (CONTINUED)
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

PUBLIC WORKS

Public Works

Streets and road - contractual services

\$ 950

\$ 950

OTHER

Insurance and Bonds

General liability

6,044

Workers compensation

387

6,431

Miscellaneous

100

100

Total Expenditures

150,907

Other Financing Uses

Operating transfers out:

Transfer to Cemetery Fund

6,000

Transfer to Building Authority

15,000

21,000

Total Expenditures and Other Financing
Uses

\$ 171,907

See Notes to Financial Statements

HILLMAN TOWNSHIP
COMBINING BALANCE SHEET - ALL SPECIAL REVENUE FUNDS
MARCH 31, 2004

	<u>Fire Equipment</u>	<u>Cemetery</u>	<u>Total</u>
ASSETS			
Cash demand and time deposits	\$ 103,146	\$ 31,511	\$ 134,657
Taxes receivable	<u>3,316</u>	<u>-0-</u>	<u>3,316</u>
Total Assets	<u>\$ 106,462</u>	<u>\$ 31,511</u>	<u>\$ 137,973</u>
FUND EQUITY			
Fund Equity:			
Fund balance:			
Undesignated	\$ 106,462	\$ 18,907	\$ 125,369
Designated for perpetual care	<u>-0-</u>	<u>12,604</u>	<u>12,604</u>
Total Fund Equity	<u>106,462</u>	<u>31,511</u>	<u>137,973</u>
Total Liabilities and Fund Equity	<u>\$ 106,462</u>	<u>\$ 31,511</u>	<u>\$ 137,973</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE - ALL SPECIAL REVENUE FUNDS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	<u>Fire Equipment</u>	<u>Cemetery</u>	<u>Total</u>
Revenue:			
Taxes	\$ 43,181	\$ -0-	\$ 43,181
Rust Township contribution	-0-	6,000	6,000
Lot sales	-0-	1,500	1,500
Burial fees/winter storage	-0-	3,765	3,765
Miscellaneous	-0-	351	351
Interest	<u>1,274</u>	<u>411</u>	<u>1,685</u>
Total Revenue	<u>44,455</u>	<u>12,027</u>	<u>56,482</u>
Expenditures	<u>42,629</u>	<u>15,421</u>	<u>58,050</u>
Total Expenditures	<u>42,629</u>	<u>15,421</u>	<u>58,050</u>
Excess:			
Revenue over (under) expenditures	<u>1,826</u>	<u>(3,394)</u>	<u>(1,568)</u>
Other financing sources (uses):			
Operating transfers in	<u>-0-</u>	<u>6,000</u>	<u>6,000</u>
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>6,000</u>	<u>6,000</u>
Excess:			
Revenue and other financing sources over (under) expenditures and other financing uses	1,826	2,606	4,432
Fund balance (deficit) - April 1, 2003	<u>104,636</u>	<u>28,905</u>	<u>133,541</u>
Fund balance (deficit) - March 31, 2004	<u>\$ 106,462</u>	<u>\$ 31,511</u>	<u>\$ 137,973</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
FIRE EQUIPMENT FUND
BALANCE SHEET
MARCH 31, 2004

ASSETS

Cash demand and time deposits	\$ 103,146
Taxes receivable	<u>3,316</u>
Total Assets	<u>\$ 106,462</u>

FUND EQUITY

Fund Equity:	
Fund Balance	<u>\$ 106,462</u>
Total Fund Equity	<u>\$ 106,462</u>

STATEMENT OF REVENUES BY SOURCES AND EXPENDITURES BY OBJECT
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenue:			
Taxes	\$ 42,000	\$ 43,181	\$ 1,181
Interest earned	<u>-0-</u>	<u>1,274</u>	<u>1,274</u>
Total Revenue	<u>42,000</u>	<u>44,455</u>	<u>2,455</u>
Expenditures:			
Contractual	<u>43,000</u>	<u>42,629</u>	<u>371</u>
Total Expenditures	<u>43,000</u>	<u>42,629</u>	<u>371</u>
Excess:			
Revenues over (under) expenditures	(1,000)	1,826	2,826
Fund balance (deficit)-April 1	<u>104,636</u>	<u>104,636</u>	<u>-0-</u>
Fund balance (deficit)-March 31	<u>\$ 103,636</u>	<u>\$ 106,462</u>	<u>\$ 2,826</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
CEMETERY FUND
BALANCE SHEET
MARCH 31, 2004

ASSETS

Cash demand and time deposits \$ 31,511

Total Assets \$ 31,511

FUND EQUITY:

Fund Equity:

Fund balance:

Reserved for perpetual care \$ 12,604

Unreserved 18,907

Total Fund Equity \$ 31,511

See Notes to Financial Statements

HILLMAN TOWNSHIP
CEMETERY FUND
STATEMENT OF REVENUES BY SOURCE AND EXPENDITURES BY OBJECT
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenue:			
Rust Township contribution	\$ 6,000	\$ 6,000	\$ -0-
Lot sales	1,500	1,500	-0-
Burial fees	5,750	3,765	(1,985)
Miscellaneous	150	351	201
Interest earned	<u>400</u>	<u>411</u>	<u>11</u>
Total Revenue	<u>13,800</u>	<u>12,027</u>	<u>(1,773)</u>
Expenditures:			
Contractual services	<u>22,150</u>	<u>15,421</u>	<u>6,729</u>
Total Expenditures	<u>22,150</u>	<u>15,421</u>	<u>6,729</u>
Excess:			
Revenue over (under) expenditures	<u>(8,350)</u>	<u>(3,394)</u>	<u>4,956</u>
Other financing sources (uses):			
Operating transfers in	<u>6,000</u>	<u>6,000</u>	<u>-0-</u>
Total Other Financing Sources (Uses)	<u>6,000</u>	<u>6,000</u>	<u>-0-</u>
Excess:			
Revenue and other financing sources over (under) expenditures and other financing uses	(2,350)	2,606	4,956
Fund balance (deficit)-April 1	<u>28,905</u>	<u>28,905</u>	<u>-0-</u>
Fund balance (deficit)-March 31	<u>\$ 26,555</u>	<u>\$ 31,511</u>	<u>\$ 4,956</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
BUILDING AUTHORITY
BALANCE SHEET
MARCH 31, 2004

ASSETS

Current Assets:

Cash \$ 17,517

Total Current Assets \$ 17,517

Land, Building and Equipment (net of
accumulated depreciation)

Land 26,000

Building & Improvements 671,341

Equipment 126,198

Less Accumulated Depreciation (466,983)

Net Land, Building and Equipment 356,556

Total Assets \$ 374,073

LIABILITIES AND FUND EQUITY

Current Liabilities:

Deposits Payable Taxes \$ 2,752

Withheld Payroll Taxes 699

Total Current Liabilities \$ 3,451

Long-Term Liabilities:

Bond Payable 30,000

Total Long-Term Liabilities 30,000

Fund Equity:

Contributed Equity 333,847

Retained Earnings 6,775

Total Fund Equity 340,622

Total Liabilities and Fund Equity \$ 374,073

See Notes to Financial Statements

HILLMAN TOWNSHIP
BUILDING AUTHORITY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED MARCH 31, 2004

Operating Revenue:		
Leases	\$ 15,192	
Banquet Sales	12,863	
Cleaning Fees	1,900	
Rental	16,889	
Roller Skating	42,793	
Miscellaneous	<u>1,207</u>	
Total Operating Revenue		<u>\$ 90,844</u>
Operating Expenses:		
Wages & Fringes	22,649	
Utilities	14,238	
Supplies	10,225	
Contractual Services	2,100	
Maintenance and Repair	11,633	
Insurance	935	
Depreciation	27,023	
Miscellaneous	5,975	
Roller Skating	<u>22,981</u>	
Total Operating Expenses		<u>117,759</u>
Operating Income (Loss)		<u>(26,915)</u>
Non-Operating Income		
Township Contribution		15,000
Interest Income		129
Interest Expense		<u>(1,995)</u>
Total Non-Operating Income		<u>13,134</u>
Net Income		(13,781)
Retained Earnings - Beginning		<u>354,403</u>
Retained Earnings - Ending		<u>\$ 340,622</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
BUILDING AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2004

Cash Flows From Operating Activities:	
Cash received from customers/leases	\$ 90,844
Cash payments for goods and services	(67,523)
Cash payments to employees and for fringes	<u>(22,649)</u>
Net Cash Provided (Used) by Operating Activities	<u>672</u>
Cash Flows From Capital and Related Financing Activities:	
Township contribution	15,000
Interest expense	(1,995)
Principal paid on bonds	<u>(15,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,995)</u>
Cash Flows From Investing Activities:	
Interest on investments	<u>129</u>
Net Cash Provided by Investing Activities	<u>129</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,194)
Cash and Cash Equivalents - Beginning of Year	<u>18,711</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 17,517</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (26,915)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	27,023
Increase (decrease) in accrued liabilities	<u>564</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 672</u></u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TAX COLLECTION FUND
MARCH 31, 2004

	<u>Balance April 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance March 31, 2004</u>
ASSETS				
Cash demand and time deposits	\$ -0-	\$ 1,728,261	\$ 1,728,261	\$ -0-
Total Assets	<u>\$ -0-</u>	<u>\$ 1,728,261</u>	<u>\$ 1,728,261</u>	<u>\$ -0-</u>
LIABILITIES				
Due to government units	\$ -0-	\$ 1,728,261	\$ 1,728,261	\$ -0-
Total Liabilities	<u>\$ -0-</u>	<u>\$ 1,728,261</u>	<u>\$ 1,728,261</u>	<u>\$ -0-</u>

See Notes to Financial Statements

HILLMAN TOWNSHIP
GENERAL FIXED ASSET GROUP OF ACCOUNTS
SCHEDULE OF GENERAL FIXED ASSETS
MARCH 31, 2004

	<u>Balance 3/31/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/04</u>
ASSETS:				
Land:				
Recreation - Parks	\$ 130,797	\$ -0-	\$ -0-	\$ 130,797
Cemetery & Improve- ments (50% Share)	13,021	-0-	-0-	13,021
Parking Lot	10,709	-0-	-0-	10,709
Land Improvement - Fencing	<u>1,981</u>	<u>1,313</u>	<u>-0-</u>	<u>3,294</u>
	<u>156,508</u>	<u>1,313</u>	<u>-0-</u>	<u>157,821</u>
Buildings:				
Recreation	77,448	4,543	-0-	81,991
Cemetery Storage Building (1/2 of \$9,000)	<u>4,500</u>	<u>-0-</u>	<u>-0-</u>	<u>4,500</u>
	<u>81,948</u>	<u>4,543</u>	<u>-0-</u>	<u>86,491</u>
Equipment:				
Cemetery (50% Share)	7,076	-0-	-0-	7,076
Tractor Trailer (1/2 of \$2,560)	1,280	-0-	-0-	1,280
Voting Machines (3)	<u>9,313</u>	<u>-0-</u>	<u>-0-</u>	<u>9,313</u>
	<u>17,669</u>	<u>-0-</u>	<u>-0-</u>	<u>17,669</u>
Office Furniture, Fixtures & Equipment	<u>42,099</u>	<u>1,480</u>	<u>-0-</u>	<u>43,549</u>
Total Fixed Assets	<u>\$ 298,224</u>	<u>\$ 7,336</u>	<u>\$ -0-</u>	<u>\$ 305,560</u>
Investment in General Assets	<u>\$ 298,224</u>	<u>\$ 7,336</u>	<u>\$ -0-</u>	<u>\$ 305,560</u>

NOTE: The Cemetery Fixed Assets represent Hillman Township's one-half share of the Cemetery Fixed Assets. The other half is owned by Rust Township, an adjoining Township.

See Notes to Financial Statements



Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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LEWISTON, MICHIGAN 49756
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FINANCIAL AUDIT COMMENTS

August 24, 2004

Hillman Township Board
Hillman Township, Montmorency County
Hillman, Michigan 49746

Dear Board,

In planning and performing my audit of the general purpose financial statements of Hillman Township, Montmorency County, Michigan, for the year ended March 31, 2004, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect Hillman Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

General Ledger/Township Activity

During the audit I noted that the journal recordings and ledger postings were accurate and agreed to the cash activity in the checking account.

To improve the ledger posting process I would suggest the following:

1. All (General, Fire) funds should be separately maintained in the ledger. This would include setting up accounts for balance sheet and income/expense for each fund. A separate fund must be maintained in the computer ledger for the fire fund and that fund's activity should be recorded separately from that of the general fund.
2. Receipts need to be written for all revenue including interest which is added to existing certificates of deposit and savings accounts. These receipts would then be recorded and added to the appropriate balance sheet accounts. During the current audit year most of your interest income was unrecorded, because you did not receipt interest earned on certificates of deposit unless deposited into the checking account. In addition, receipts were not issued in the general fund for all tax funds received from the tax collection account.

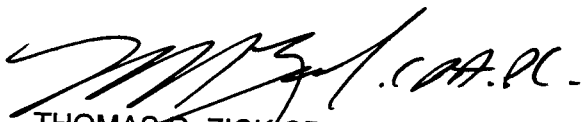
3. The checking account in the clerk's computer ledger balanced to the treasurer records, but the other cash accounts did not balance. We will assist in setting up opening entries for all cash accounts which should then be balanced monthly to the treasurer's records.
4. The computer general ledger should show the receipt number on each revenue transaction and the check number on each disbursement. In addition, receipts should be issued in consecutive number order.
5. There is a new State chart of accounts, new account numbers, which must be used by the township to comply with State requirements for township accounting. You need to include account numbers in your accounting records.

Fixed Assets / GASB #34

A detail list of general fixed assets showing cost and accumulated depreciation needs to be set up and maintained. Your next audit will require that the financial statements be prepared in compliance with GASB Statement No. 34. This statement requires that fixed asset detail be available and that depreciation is recorded on all depreciable assets. We can assist you in developing this schedule.

I would like to express my appreciation for the excellent cooperation received from Pam, Karen and Darryl while performing the audit. If I can be of any assistance in implementing the above recommendations, please contact me.

This report is intended solely for the use of management and the Michigan Department of Treasury, and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Hillman Township Board, is a matter of public record.


THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT



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August 24, 2004

Hillman Township Board
Hillman, MI 49746

In planning and performing my audit of the financial statements of Hillman Township for the year ended March 31, 2004, I considered the Township's internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements. The consideration I gave to the internal control structure was not sufficient for me to provide any form of assurance on it. However, in reviewing the Township's processes and systems, I made observations I feel should be communicated to you and I have done so in a separate letter dated August 24, 2004. In addition I have summarized other areas for Board consideration involving internal controls and fraud considerations.

If you have any questions on the information contained in this letter please contact me.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

Enclosure

Internal Controls

Over a relatively short period of time, there have been several large fraud related cases documented in the mid-Michigan area, as well as in other areas of Michigan and throughout the country. These highly publicized cases have raised significant concerns for management of many organizations, as well as the board members of these not-for-profit organizations and governmental organizations, concerning their organization's vulnerability to internal or external fraud related activities. It is strongly believed that all organizations, both small and large, have some level of risk in this area and even having the "best practices" in place will not necessarily prevent the occurrence of this unfortunate activity.

Through many recent conversations with my clients regarding their susceptibility to fraud, it was noted the most important element necessary to reduce the risk of fraud is to have a sound organizational structure, which includes sound accounting and internal control policies and procedures (IN THE EYES OF THEIR EMPLOYEES). One of the key aspects of strong controls, and thus a deterrent, is senior management's support and involvement with accounting and internal control monitoring and related decisions.

Some of the key areas to focus on include, but are not limited to, the following:

- Cash receipts handling and posting to general ledgers including the initial posting of cash receipts and delinquent tax receipts.
- Posting of adjusting journal entries to the ledger
- Cash disbursements, including the establishment of vendor master files in the computer system and maintenance and controls surrounding the signature of cash disbursement checks.
- Payroll, including the access to all master files detailing wage rates and other information, and the establishment of new employees in the computer system.
- Proper approval procedures for all disbursements including a good checks and balances system i.e.: no one person responsible for this function.

Fraud Considerations

Statement on Auditing Standards No. 99 (SAS 99), consideration of Fraud in a Financial Statement Audit

Effective for the year ended December 31, 2003, Statement on Auditing Standards No. 99 (SAS 99), *Consideration of Fraud in a Financial Statement Audit*, requires additional audit procedures addressing the risk of fraud in an organization. Our responsibility is not to detect fraud, but to detect material misstatements in the financial statements caused by fraud, and our consideration of fraud is integrated into the overall audit process.

Types of fraud include intentional misstatements or omissions in financial reporting and misappropriation of assets. SAS 99 requires auditors to address:

- How and where the client's financial statements might be susceptible to material misstatement due to fraud and what conditions might be present to allow fraud to occur.
- How management could perpetrate and conceal fraud.
- How management or employees could misappropriate assets of the client.

In addition, SAS 99 requires auditors to make inquiry of:

- Management regarding their awareness and understanding of fraud, fraud risks, and steps taken to mitigate risks.
- Others within the entity, including board members, non-financial executives, administrators, and non-management personnel not directly involved in the financial reporting process, regarding the existence or suspicion of fraud and the individual's views about the risks of fraud within the entity.

Risk areas identified through inquiries and based on industry knowledge will significantly affect the audit process. With your help, the implementation of these new standards will certainly lead to a greater comfort in the controls you have designed and implemented. It may even create greater efficiency in the accounting process as a byproduct of the process.

Creating a Culture of Honesty and High Ethics

It is the government's responsibility to establish core values and to effectively communicate the values to employees in order to create a culture with high ethical standards. The AICPA has included the following as key components necessary for the creation of such a culture.

Fraud Considerations (continued)

Setting the Tone at the Top

Management, through the modeling of high ethics themselves and effectively communicating expectations to employees, is responsible for leading the effort to create the appropriate culture within a Township.

Creating a Positive Workplace Environment

The creation of a positive workplace environment, where employees feel they are treated fairly, has proven to reduce the risk of fraud. This type of environment could be created as follows:

- Allowing employees to provide input related to the code of conduct
- Enabling employees to internally seek advice concerning decisions that appear to have ethical implications
- Establishment of a fair reward system
- Implementation of team-focused decision making policies

Hiring and Promoting Appropriate Employees

Policies must be effective in reducing the chances of hiring and promoting individuals with low ethical standards.

Training

Core values expressing an attitude of intolerance toward unethical behavior should be communicated immediately to new hires and should be re-communicated periodically to all employees.

Confirmation

Reinforcement of core values occurs if the employees are required to sign a code of conduct statement.

Discipline

Consequences of unethical behavior should be communicated upfront, and management response to unethical behavior should be consistent with the consequences communicated. Management's response demonstrates the level of commitment to the ethical standards and could deter future wrongdoing.

Fraud Considerations (continued)

Evaluating Antifraud Processes and Controls

Perceived opportunity to successfully commit fraud increases the risk that fraud will occur. The following can help in reducing the opportunity for fraud:

Identifying and Measuring Fraud Risks

The government's vulnerability to fraudulent activity (including fraudulent financial reporting, misappropriation of assets, bribery and other illegal acts) should be assessed.

Implementing and Monitoring Appropriate Internal Controls

Internal processes can be modified to reduce fraud risk. Examples of such process modifications are as follows:

- Additional review of the procurement process
- Segregation of duties
- Adequate scrutiny of interim financial reports and budget reports by management

Developing an Appropriate Oversight Process

Whether it is external or internal oversight, appropriate oversight should be identified and established.

Township Board

The governing board is ultimately responsible for ensuring management is doing an effective job of monitoring fraud risk and implementing procedures to mitigate fraud risk. Therefore, the Board should be evaluating management's assessments and controls. Also, the Board should assess management's ability to override controls and to establish controls to minimize this risk.

Independent Auditors

Independent auditors can provide an assessment of the government's process for identifying, assessing and responding to the risk of fraud.

Fraud Considerations (continued)

Certified Fraud Examiners

Certified Fraud Examiners can provide additional insight into the risk assessment.

Other Information

The following Web sites provide additional guidance on fraud and the implementation of anti-fraud programs and controls:

American Institute of Certified Public Accountants	www.aicpa.org
Association of Certified Fraud Examiners	www.cfenet.com
Financial Executives International	www.fei.org
Information Systems Audit and Control Association	www.isaca.org
The Institute of Internal Auditors	www.theiia.org
Institute of Management Accountants	www.imanet.org
National Association of Corporate Directors	www.nacdonline.org
Society for Human Resource Management	www.shrm.org